

From the perspective of international trade, only those subsidies that result in expanded output are harmful to producers in other countries.^{23/} Yet determining the magnitude, let alone the effect, of a subsidy is a difficult task.^{24/} It is made more difficult when firms are owned by governments. For example, chronic operating losses do not prevent a nationalized firm from undertaking investments that a private firm would believe to be uneconomic. Similarly, government ownership may make a firms's capacity and production decisions less responsive to market signals.

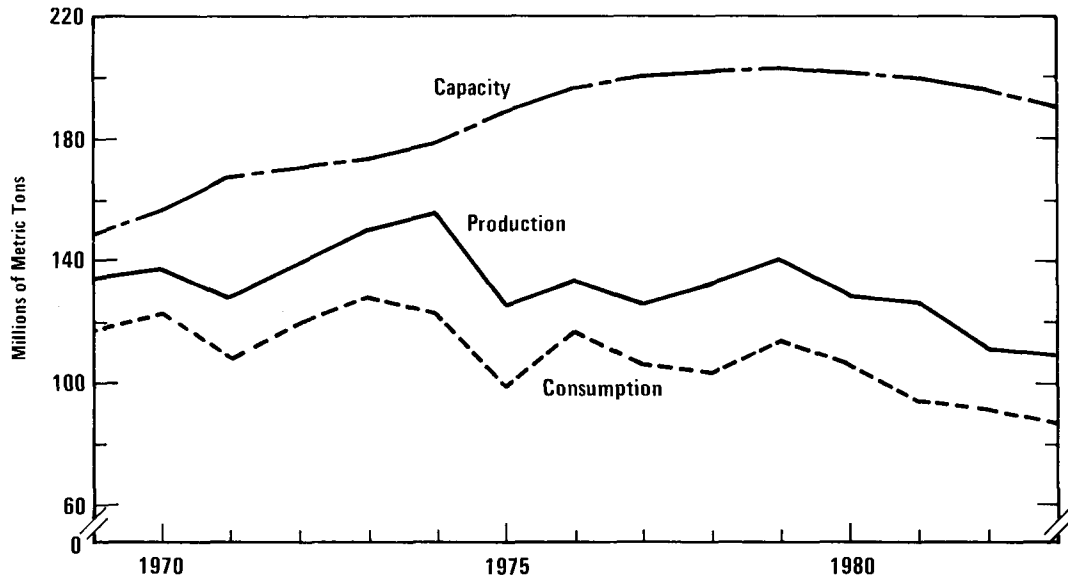
While European governments have provided subsidies to firms in all three of the industries considered here, support of the steel industry has been especially noteworthy. Between 1980 and 1985, the members of the EC reported over \$35 billion in government subsidies to steel manufacturers.^{25/} More than half of those were earmarked for operations, and 30 percent for investment. Government assistance was at least partly responsible for the increase in Europe's steelmaking capacity despite declining consumption during the 1970s (see Figure 3). The combination of increased capacity and declining domestic sales increases the incentives of European steel producers to depend on foreign markets.^{26/}

The subsidies to EC's steel industry were announced as part of a "manifest crisis" in 1979, and were supposed to end by 1985. Subsidies continued, however, helping to preserve substantial redundant capacity. In the United Kingdom, Italy, and Germany, in particular, political pressures are apparently keeping unnecessary capacity in operation.^{27/}

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23. For example, government subsidies of high-cost upstream producers, such as coal producers, would not adversely affect the downstream market, such as steel, so long as the subsidies did not exceed the coal producers' cost disadvantage. The subsidies would, however, affect the coal market by stimulating the production of coal by marginal producers.
 24. Signatories to the GATT, upon written request, agree to furnish information on the nature and the extent of the subsidies they provide that directly or indirectly increase exports or reduce imports of a product.
 25. *15th Report On Competition Policy* (Brussels: Commission of the European Community, 1985).
 26. For a discussion of these issues, see International Trade Commission, *Foreign Industrial Targeting...The European Community*; also "Government Aid to the Steel Industry of the European Communities," prepared by Verner, Liipfert, Bernhard, McPherson and Hand for Bethlehem Steel Corporation and United States Steel Corporation.
 27. See "Europe Pays On," *Economist*, July 13, 1985, p. 72, and International Trade Commission, *Operation of the Trade Agreements Program, 1985*, Publication 1871 (June 1986), p. 144.



Figure 3.
European Community: Steel Production, Consumption, and Capacity



SOURCES: Congressional Budget Office; International Iron and Steel Institute; Organization for Economic Cooperation and Development.

Government support has also been important to a number of European automobile manufacturers. The French government owns Renault, and the British government owns Rover; it is doubtful whether either firm could produce at its current scale absent government assistance. Renault might very well have gone bankrupt at the end of 1985 had not a law prohibited it from doing so and had not the government provided it with aid.^{28/} After Rover was nationalized in the 1970s, because it was failing as a private firm, its capacity, work force, and wage rates were reduced. Nevertheless, the government has provided \$3.25 billion of aid to Rover since 1975.^{29/}

Subsidies are also evident in the textile and apparel industries. Several European governments have subsidized inefficient plants and have invested in industry modernization. Because of their cost, many of these

28. See "France Plans to Alter Renault's Protected Status," *Automotive News*, November 17, 1986, p. 2.

29. See "Britain's Rover Pins Hope on American Love of Luxury," *Wall Street Journal*, February 19, 1987, p. 32.

subsidy programs have been curtailed.^{30/} Nevertheless, Italy continues to provide substantial operating and investment subsidies to a major state-owned producer, ANIC-Fiber. France nationalized Rhone-Poulenc in 1982 and has subsidized textile and apparel workers' social security contributions.

The United States has been much more reluctant than other countries to subsidize its ailing firms. The only significant direct U.S. government subsidy of a firm in a mature industry was the \$1.5 billion loan guarantee to Chrysler made in January 1981.

Japan has used a combination of subsidies and trade protection in an effort to help its industries become established in international markets. It nurtured the automobile industry under restrictive trade barriers and through loans, grants, and tax incentives.^{31/} It employed similar policies in the steel industry. In both cases, these measures were apparently discontinued once the industry was able to compete effectively.

Several of the newly industrializing countries employ measures similar to those used by Japan to bolster certain manufacturing industries. Korea and Brazil have recently completed large integrated steel mills; in a reversal of historic patterns, both have had positive trade balances during the 1980s. Korea and Taiwan are using a combination of trade restraints and subsidies to establish automobile industries. Many developing countries, as well as some of the newly industrialized countries, have provided interest-rate subsidies and other grants to promote growth in their textile and apparel industries.^{32/} Moreover, a number of developing countries have also established import restrictions in order to bolster their textile and apparel manufacturers.

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30. For a discussion of these programs, see Organization for Economic Cooperation and Development, *Textile and Clothing Industries* (Paris: OECD, 1983), p. 133; Thomas Howell and others, *The Textile and Apparel Trade Crisis: A Study Prepared for the Fiber, Fabric and Apparel Coalition for Trade* (Washington, D.C.: Dewey, Balantine, Bushby, Palmer and Wood, 1985), pp. 110-145; International Trade Commission, *Foreign Industrial Targeting and its Effects on U.S. Industry, Phase II: The European Community and Member States* (Washington, D.C.: ITC, 1984), pp. 148-153. For a further discussion of France's policies, see John Zysman, *Governments, Markets, and Growth* (Ithaca: Cornell University Press) pp. 154-157.
31. See, for example, International Trade Commission, *Foreign Industrial Targeting and its Effects on U.S. Industries, Phase I: Japan*, Publication 1437 (October 1983), p.129.
32. See International Trade Commission, *Foreign Industrial Targeting and Its Effects on U.S. Industries, Phase III: Brazil, Canada, The Republic of Korea, Mexico, and Taiwan*, Publication 1632 (1985), pp. 70-72, 170-172, and 280-281. Also see Thomas Howell and others, *The Textile and Apparel Trade Crisis*, pp. 40-106.



BARGAINING POSITIONS IN THE URUGUAY ROUND

The basic industries considered in this chapter are shifting from the industrialized areas of North America, Europe, and Japan to the industrializing countries of the Third World. The process is occurring more rapidly in some industries and countries than in others. Even if the importance of these industries in the industrialized countries continues to decline, they will retain a footing there either for technological reasons or to be close to markets.

The spread of basic industry is driven by the standardization of technology, the lowering of global transportation costs, and the advent of transnational firms that can reorganize production across national boundaries. The bargaining positions of the nations involved in the Uruguay Round will reflect their positions in this shift and their national policies toward it.

The newly industrialized countries, as large potential exporters of basic manufactured products, generally seek a liberalization of trade in these industries. They are joined, to a large extent, by Japan, which has been a successful producer of basic manufactured products (although Japan, too, faces competition from other nations of the East Asian rim). On the other side of this issue are the United States and the European Community, which stand to lose the most from a liberalization of trade in these goods. This division holds by and large for the three basic industries of textiles and apparel, steel, and automobiles. Some exporting countries, however, may prefer that the Multifiber Arrangement be continued as a way of limiting the growth of competing textile and apparel producers in other countries.

But the Uruguay Round discussions will be concerned with more than just the liberalization of trade. One important issue concerns "adjustment" programs for ailing industries. A second issue concerns the preferential treatment of developing countries.

Adjustment Programs

Article XIX of the General Agreement permits programs of import relief to enable industries to adjust to difficulties so long as the programs are temporary and conform to the most-favored-nation principle. Increasingly, however, protection is targeted at specific nations and lives beyond its original intended life. In response to this fact, various authors have encouraged stricter adherence to a formal procedure for industry adjust-

ment in this country.^{33/} Such a program would sanction temporary protection for industries hurt by international trade if predicated on a plan to eliminate excess capacity, reduce and retrain the labor force, change work rules, and modernize existing facilities. Once the adjustment was completed, they would return to free trade. The program could be financed out of general revenues or by tariffs on relevant imports.

Proponents of such a program in the United States contend that it would meet the demand for more protection without creating new (and often permanent) barriers to trade. Opponents maintain that all of the basic industries considered in this chapter have been involved in sequential episodes of protection, but none of them has improved its prospects to the point where it is ready to face unrestrained competition.^{34/} Trade restraints tend to become permanent, as has been the case in textiles and apparel with the Multifiber Arrangement and may yet be the case in steel and automobiles. Opponents also contend that temporary protection would be subject to political abuse and would produce a result no less protectionist than the existing system. They note that such programs in Western Europe have not significantly improved the mobility of resources in those economies, and that even Japan has had difficulty when confronted with the need to downsize its larger industries.

Preferential Treatment

The second issue concerns newly industrializing countries, and how long they should be permitted to continue subsidies and trade barriers in the name of development. The rationale for such measures was to encourage production by basic industries that would substitute for imports. Many developing countries have now become exporters of such products, and no standard exists to determine when the relevant subsidies should be phased out. Some of the newly industrializing countries would argue that export earnings in any one industry are not indicative of their level of overall development, which should be the criterion for determining whether export subsidies are

33. See E.M. Ehrlich and R.C. Scheppach, *New Directions in Economic Policy* (New York: Praeger, 1984); see also G.C. Hufbauer and J.J. Schott, *Trading for Growth: The Next Round of Trade Negotiations* (Washington, D.C.: Institute for International Economics, 1985).

34. For a discussion of the effectiveness of trade protection in improving these industries' international competitiveness, see Congressional Budget Office, *Has Trade Protection Revitalized Domestic Industries?* (November 1986).



to continue. Others would argue that the issue should be settled on an industry-by-industry basis. Thus, if a large and efficient steel industry emerges in a developing country, that country should no longer limit steel imports or provide its steel producers with export subsidies. It could, however, continue to employ subsidies to foster growth in other industries.

IMPLICATIONS OF LIBERALIZED TRADE

Putting an end to trade barriers and subsidies would clearly have an adverse effect on U.S. industries that have benefited from such policies. The shock would be lessened, however, if all countries were to step collectively away from trade restraints. The problem of automobile imports into the United States, for example, may be made worse by the fact that the European Community is far more closed to Japanese automobile production than is the United States. Limiting access to this significant market gives Japanese producers greater incentives to sell in the United States.

Currency movements may also moderate the dislocating effects of trade. As a country's exports increase, the value of its currency tends to rise--making its exports more expensive in terms of other currencies. If currency values were generally allowed to be influenced by trade flows, this would mitigate the effects of trade liberalization on the United States. But some developing countries choose to lower their currency values in order to stimulate exports--sometimes in the name of development, sometimes as part of a program to repay foreign debts. Liberalization of trade in manufactured goods would make this type of interference a matter of greater concern for the industrialized nations.

The degree of international competition varies among industries. Textile and especially apparel industries are labor-intensive, and the low wages in developing countries have given firms there an important competitive advantage. A number of newly industrializing countries have also become significant exporters of steel, and are on the point of emerging as important automobile producers, because of raw material, capital, and other cost advantages.

Apparel manufacturers in developed countries would probably be the most adversely affected by trade liberalization, since with their higher wage rates they cannot match the costs of firms in developing countries. Textile

producers have a smaller cost disadvantage. Certainly some major sectors of these industries would remain viable even without the protection of the Multifiber Arrangement. Tariffs in developed countries for textile and apparel products are substantially higher than for other products. Moreover, technological advances hold the prospect of dramatically reducing the labor intensity of some apparel production.^{34/} Also, in the United States, cooperative agreements among retailers and manufacturers are permitting the domestic textile and apparel industries to respond more rapidly to changes in consumer tastes. Such actions enable retailers to tailor their inventories more precisely to competitive conditions, and may help to compensate for domestic firms' higher manufacturing costs.

The steel industries in the developed countries would probably suffer heavily in the event of a substantial liberalization of trade. Despite substantial modernization, many of the largest U.S. producers are still saddled with old and inefficient production facilities. Moreover, minimills, which do not produce raw steel, are a profitable and rapidly growing sector in the United States; even in the absence of imports, the growth of these minimills could place competitive pressures on the integrated producers. Largely because of government subsidies, European steel producers have more capacity in large modern and efficient mills than do U.S. producers. Nevertheless, there is far too much steel capacity in the world and a substantial liberalization would probably cause significant financial distress to steelmakers in all the developed countries.

The automobile industry shares a number of characteristics with steel. Other developed countries are the principal exporters, and the United States has proved to be an attractive destination. Unlike steel, however, automobiles require the assembly of numerous components: automakers have the flexibility to purchase rather than manufacture many parts and sub-assemblies. Moreover, unlike steel producers, automobile manufacturers make differentiated products. For these reasons, the industry is characterized by a broad line of products and by multinational operations. All the principal Japanese manufacturers now have, or are in the process of establishing, production facilities in the United States, as U.S. manufacturers have done in other countries. Many Japanese parts suppliers are also establishing plants in the United States. Similar trends are also evident in Europe. This strongly suggests that the industry will continue to flourish in developed countries even as it expands in developing countries.

34. See "Getting Competitive," *National Journal*, June 7, 1986, pp. 1360-1365.



Many of the European car manufacturers specialize in producing relatively small and inexpensive cars like those Japan used to enter the U.S. market. This is one reason why Europe has not imported more Japanese cars. Japan's European penetration has also, however, been limited by a variety of explicit and implicit import restraints. If these restraints were relaxed, there would almost certainly be a significant increase in Japanese car exports to Europe.

Many nations that would gain from liberalization of trade in basic manufacturing allow practices that would not be permitted in the United States. Foreign producers often use processes or product designs that would be prohibited under U.S. laws for environmental or safety reasons. Some foreign producers deny workers the right to organize; some countries have maximum wage laws, and place other restrictions on workers' bargaining power. If these issues were brought into the GATT negotiations, or, perhaps more realistically, if the United States were to pursue agreements on them through its own diplomacy, their resolution might offset some of the negative consequences of trade liberalization.

Budgetary Implications

Liberalization of trade in the products of mature industries could have a significant impact on the federal budget. Mature industries receive some direct federal support, primarily for specific research and development projects.^{35/} Indirect support is also provided from the budget through credit programs such as the Export-Import Bank, and through the tax system--although tax reform has diminished the latter. Agreement to limit subsidies or to scrap or amend the Multifiber Arrangement could diminish the justification for these programs.

But the most significant budgetary effects of potential GATT actions would fall primarily in two policy areas: federal adjustment assistance programs, and trade protection through quantitative restraints on imports. In the first area, liberalization of trade would be likely to increase budget outlays; in the second, it would lead to increased revenue.

35. For an analysis of total federal support for commercial activities, see Congressional Budget Office, *Federal Support of U.S. Business* (January 1984). In that report, direct on-budget expenditures for all industries were calculated to be \$13.7 billion in 1984. Over half of that, however, was directed to agriculture. Of the remainder, the programs most affecting mature industries focused on research and development support. See also Congressional Budget Office, *How Federal Policies Affect the Steel Industry* (February 1987), pp. 25-31, for an analysis of direct federal funding of steel research, amounting to about \$26 million annually.

Adjustment Assistance. As discussed in Chapter I, trade liberalization, while improving the overall standard of living, often concentrates losses on the weakest competitive groups in the economy. In the past, trade adjustment assistance has been seen as a tool that would allow a smoother shift of resources from losing sectors to gaining ones. In practice, the U.S. Trade Adjustment Assistance (TAA) program has emphasized cash assistance to overcome temporary dislocation, rather than the retraining of unemployed workers that would increase their mobility.

The TAA program is authorized at \$29.9 million for fiscal year 1987; Title III of the Job Training Partnership Act (JTPA) of 1982 also provides about \$200 million in funding for training so-called dislocated workers. The Administration's 1988 budget proposal would combine the TAA and JTPA programs and increase the combined budget to \$986 million in the first year. Trade liberalization, which might create greater worker dislocation, would increase the demand for such adjustment programs.

Quantitative Restraints. The Congress has recently considered auctioning existing U.S. import quota rights to the highest bidder--in effect, converting quotas to a form of tariff. Such a policy might arouse greater interest if the GATT negotiations were to produce an agreement either limiting the use of quantitative restraints or replacing them with tariffs.^{36/} Current U.S. policies include voluntary export restraints for such mature industries as textiles, apparel, steel, and machine tools. (Japanese export restraints on autos are excluded because they have not been formally agreed to by the U.S. government.) The Congressional Budget Office has estimated that auctioning existing quotas (or imposing an equivalent tariff) could increase revenues by \$3.9 billion in fiscal year 1988 and \$4.7 billion in 1989.^{37/}

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36. Under most conditions auctioning quota rights would have the same effect as an equivalent tariff. Moreover, for purposes of analysis, the two may be calculated in the same way.
37. See Congressional Budget Office letter to Chairman William H. Gray, Committee on the Budget, February 26, 1987. See also C. Fred Bergsten, Jeffrey Schott, Wendy E. Takacs, and Kimberly A. Elliott, *Auction Quotas and United States Trade Policy* (Washington, D.C.: Institute for International Economics, forthcoming). It should be noted that estimates in this book differ from CBO estimates; notably, they include \$2.2 billion in revenues achievable in 1984 through the auctioning of quotas on autos. Current market conditions suggest that even if these restraints were to be formalized by the Congress, the revenue gain might be close to zero.





CHAPTER VI

TRADE IN SERVICES

Expanded trade in services would offer the same benefits as for goods: greater efficiency through specialization. Services trade is not covered by the GATT. The barriers to services are not tariffs or quotas, but national policies that have often been established for other purposes. Efforts to liberalize services trade are hampered by the difficulty of defining services and by the lack of adequate information about them.

Barriers to trade in services vary according to the way services are delivered. Some that are conveyed like goods, such as shipping and air transportation, are already regulated by international agreements. Others that are conveyed through legal arrangements (such as film leasing, or franchises) and those involving the movement of people (such as professional business and financial services) are generally regulated unilaterally by the importing countries. Many of these unilateral regulations create barriers to trade, though not all of them are deliberately established for that purpose.

Bargaining in GATT over services tends to align developed countries against developing countries (although individual countries within these blocs may hold different positions on specific issues). The developed countries, especially the United States, favor liberalizing measures because they have advantages in providing many services that are capital-intensive and require highly skilled labor. Developing countries see little to be gained from this since their advantages lie primarily in low labor costs: for them to provide labor-intensive services to the developed countries, the latter would have (among other things) to liberalize their immigration practices, which they have been reluctant to do.

The service sector has become increasingly important in the U.S. economy. In 1985, services accounted for 50 percent of gross national product, up from 40 percent in 1965. While the United States has seen a dramatic increase in its merchandise trade deficit, it continues to experience a positive balance of trade in services. With services becoming an increasingly important part of its economy, the United States has an interest in promoting freer trade in this area. So far, there is no encompassing multilateral agreement that applies to trade in services; GATT focuses almost exclusively on manufactured goods.



In services trade, the important barriers are not tariffs and quotas. For this sector, policies regarding immigration, investment, currency controls, and regulation loom much larger. Nations often establish policies in these areas for reasons other than commercial advantage. Hence, efforts to liberalize trade in services may reach into other fields of activity, and improvements may come very slowly. This chapter provides an overview of some of the important service sector issues. ^{1/}

DEFINING SERVICES

The definition of a service is elusive. The service sector includes all activities bought and sold in the marketplace that do not involve tangible goods, but it also includes some activities associated with the production of tangibles, such as a consultant's report or a movie. Historically, the collection of statistics on the service sector treated it as a residual category encompassing all output not produced in the merchandise sectors: agriculture, mining, manufacturing, and structures.

A distinguishing feature of most services is that they are usually sold directly by the producer to the consumer, and are not traded over long distances--examples being haircuts, auto repairs, and dining.^{2/} Another, related feature is that services are commonly produced and consumed simultaneously, and cannot be stored--for example, an airplane flight or a banking transaction. Yet neither of these features is definitive; some goods share these characteristics, but not all services share them. In short, the distinction between services and goods is somewhat arbitrary.

Most goods and services have a component of the other in their production processes. Thus the production of steel requires services such as transportation, engineering, and marketing. Only services traded in markets

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1. The discussion treats services generically. Little attempt is made to deal with many of the issues that are unique to specific service industries. Yet, negotiations will necessarily have to take into account both the generic and specific impediments to trade.
 2. See Jagdish Bhagwati, "International Trade in Services and its Relevance for Economic Development," 10th Annual Lecture of the Geneva Association, 1985. For further analysis of how services and goods may differ, and their implications for international trade, see the same author's "Economic Perspectives on Trade in Professional Services" (March 1986, processed) and "Trade in Services and the MTN" (November 1986, processed).

(that is, purchased from outside a firm or individual household) are counted as such in government statistics; services performed "in-house" are not distinguished from goods production. Generally, the important traded services are: travel, transportation, tourism, and leisure; professional business; construction-engineering; telecommunications; information and data-processing; and finance and insurance.

It is generally agreed that the data system for international trade in services is inadequate and that more current, detailed, and comprehensive data are needed in both the public and private sectors.^{3/} The Commerce Department divides data on trade in international services into two broadly defined categories: "business services" and "other services." Business services are dominated by transportation, travel, tourism, and leisure services, and include activities that are provided to foreigners by domestic firms, whether in the United States or elsewhere. The second Commerce Department category, "other services," encompasses interest, profits, and dividend remittances from foreign affiliates to parent firms. "Other services" also includes repatriated profits of domestic firms' foreign manufacturing facilities as well as dividends paid to domestic owners of foreign common stock. Thus it is difficult to determine how much of these "other services" actually come from service activities, and how much is a return on past manufacturing investment.

RECENT TRENDS IN SERVICES TRADE

In 1985 the net balance of trade in services was in surplus by \$21.8 billion (see Table 13).^{4/} This figure, however, was dominated by a net surplus of so-called "other services"--predominantly a return on past investment--of \$21.4 billion. The category of "business services" showed a positive balance of about \$0.3 billion.

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4. Efforts are under way in the Executive Branch to improve services trade data, in accordance with the Trade Act of 1984 (Public Law 98-573).
 5. Data in this section are based on U.S. Department of Commerce balance of payments data. The Office of Technology Assessment (OTA) has reestimated U.S. service trade data, and concluded that federal balance of payments statistics significantly underestimate both exports and imports of services. According to OTA's midrange estimate, 1984 services trade may be understated in official statistics by about \$12 billion. For alternative approaches to improving services trade statistics, see Office of Technology Assessment, *Trade in Services* (Special Report, 1986).



As seen in Table 14, from 1975 to 1981 service exports expanded from \$48.6 billion to \$138.7 billion, while rising as a share of total exports from 31.2 percent in 1975 to 36.9 percent in 1981. In 1985, service exports equaled about 40 percent of total export earnings. Similarly, service imports rose rapidly between 1975 and 1981, and have more recently leveled off at just under 27 percent of total imports. These trends allowed for a net surplus in the U.S. balance of trade in services, with net U.S. service receipts peaking at \$41.7 billion in 1981 (see Table 13).

The fall in net services trade is largely the result of a decline in business services, which decreased from \$9.6 billion in 1981 to \$0.3 billion in 1985 mainly because of greater imports of travel and transportation services. Investment income receipts, although falling by about one-third from 1981 to 1985, now make up almost 99 percent of the total service surplus. If present trends continue, a service trade deficit is likely.

The Office of Technology Assessment (OTA) recently released an important reestimate of services trade data. This estimate expanded both the base of reported transactions and the level of industry detail. The report found that:

TABLE 13. NET BALANCE OF TRADE IN SERVICES
(In millions of dollars)

Category	1981	1982	1983	1984	1985
Business Services	9,631	8,764	6,421	2,190	338
Travel and fares	58	-1,599	-4,595	-7,570	-9,172
Other transport	86	607	-9,632	-1,023	-1,956
Fees and royalties	6,633	4,558	4,502	4,583	4,976
Other services	2,854	5,198	6,146	6,200	6,490
Other Services (Includes investment)	32,111	27,465	23,535	16,023	21,408
Total	41,742	36,229	29,956	18,213	21,746

SOURCE: U.S. Department of Commerce, Balance of Payments Accounts.

- o The current system of reporting services in the balance of payments is subject to large errors. Business service exports for 1984 were reported by the Commerce Department to be \$43.8 billion, but may have been over twice that amount, between \$69 to \$91 billion by OTA's estimates.
- o Trade in services has made a significant positive contribution to the U.S. balance of payments. Official statistics show the U.S. with a net surplus of business service exports of \$2.3 billion in 1984, while OTA estimates this surplus at about \$14 billion.
- o Sales of services in foreign markets by the overseas affiliates of U.S. firms exceed direct exports of services. Thus, any examination of total services trade must consider both direct sales and sales through investment.
- o The leading services exported directly from the United States were transportation, travel, construction, and licensing. Leading service imports were in transportation, travel, and insurance.
- o The domestic output of most U.S. service industries far outstrips foreign sales, and in many cases a few large firms earn the dominant share of export earnings.

CURRENT PROBLEMS IN INTERNATIONAL SERVICES TRADE

Merchandise exports are generally produced in one country and consumed in another. In contrast, service exports may be consumed in either the exporting or importing country. Thus, foreigners' purchases of domestic hotel and tourist services are considered exports, and sending workers temporarily to a foreign location to provide a service is also an export.

In goods trade, the tangible product is usually counted (and may be restricted) as it is transported over national boundaries. In services trade, on the other hand, there is often no tangible output to exchange, thus limiting a government's ability to restrict imports. Rather, a service is performed and exchanged over international boundaries in one of the following ways:

- o Cross-border transactions, in which services are transferred from one country to another. This includes the transmission of voice, video, data, or other information, and the transportation of passengers and goods.



- o Cross-border transactions, in which services are transferred from one country to another. This includes the transmission of voice, video, data, or other information, and the transportation of passengers and goods.
- o Contractual arrangements granting rights to use intellectual property and franchises, including transmission of patents, trademarks, films, and broadcast and recording rights.

TABLE 14. U.S. EXPORTS AND IMPORTS, SELECTED YEARS
(In billions of dollars)

Category	1975	1980	1981	1982	1983	1984	1985
Exports							
Merchandise	107.1	224.3	237.1	211.2	201.8	219.9	214.4
Services	<u>48.6</u>	<u>118.2</u>	<u>138.7</u>	<u>137.5</u>	<u>131.5</u>	<u>140.2</u>	<u>144.1</u>
Total	155.7	342.5	375.8	348.7	333.3	360.1	358.5
Percent of Total							
Merchandise	68.8	65.5	63.1	60.6	60.5	61.1	59.8
Services	31.2	34.5	36.9	39.4	39.5	38.9	40.2
Imports							
Merchandise	98.2	249.8	265.1	247.6	268.9	332.4	338.9
Services	<u>34.6</u>	<u>83.2</u>	<u>96.9</u>	<u>101.3</u>	<u>101.5</u>	<u>122.0</u>	<u>122.3</u>
Total	132.8	333.0	362.0	348.9	370.4	454.4	461.2
Percent of Total							
Merchandise	73.9	75.0	73.2	71.0	72.6	73.2	73.5
Services	26.1	25.0	26.8	29.0	27.4	26.8	26.5

SOURCE: U.S. Department of Commerce, Balance of Payments Accounts.